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SENSITIVE

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TAGS: [EPET](#) [BTIO](#) [ENRG](#) [EINV](#) [SENV](#) [ECON](#) [EFIN](#) [SG](#)  
SUBJECT: LOTS OF GAS BUT NO MONEY TO PAY FOR IT

DAKAR 00000714 001.2 OF 002

¶1. (SBU) SUMMARY: In a meeting with Rogers Beall, CEO of oil and gas concern Fortesa International, he said his Senegal concession has proven natural gas reserves of 1 trillion cubic feet (TCF) and that they already have the capacity to deliver over 300,000 CF per day if and when the state electricity company, Senelec, has the money to pay for it. Beall is bullish on possible petroleum reserves both on- and off-shore Senegal, but notes that they will not be found within traditional geologic structures. End Summary

¶2. (SBU) In wide-ranging discussion, Beall, who has been operating in Senegal for more than 14 years as Fortesa, and more recently as Africa Onshore Drilling, told Econ officers he is convinced that Senegal has more than enough hydrocarbon reserves in the form of on-shore natural gas deposits as well as off-shore shallow and deep-sea oil reserves to easily meet the country's ever-increasing energy demands. Beall reported that his 1,000 square km concession, which ranges from the entrance into the Dakar peninsula north, up the coast line towards the famed Lac Rose and inland towards Thies, has one TCF of gas and that he is in the process of doing further seismic data collection and analysis to determine where to drill next. He confirmed, however, that expanding his production will not be easily accomplished for his small company since there is extremely high global demand for drilling rigs and equipment. Beall revealed that surveys have shown that much of Senegal's coastal geology is particularly suitable for the creation of hydrocarbons and he is confident that at least 2-3 TCF more of gas can be found in other blocks.

¶3. (SBU) Beall is an optimist on Senegal's economic potential and believes that in a few years the country could consume all the reserves in his block. Senegal's current and future large industrial companies, including mining operations, cement factories, and the large phosphates producer, are suffering from the lack of reliable fuel and electricity, according to Beall.

¶4. (SBU) In our discussion, Beall claimed that his concession has enough natural gas to give Senegal an additional 200 MW of power for the next fifty years and that if new sources come on line that could increase to 400 MW. He informed us that he has, on many occasions, urged the government to switch some of the new power plants that have recently come online to natural gas and critiqued a recent plan by a Canadian company to build a coal-fired plant as the coal would have to come from already energy-strapped South Africa.

GOING FROM BAD TO WORSE

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¶5. (SBU) Currently Fortesa has two operational wells which can produce close to 350,000 CF a day. The state-owned electricity company Senelec is Fortesa's main purchaser but since it is facing huge cash flow problems, Beall said that the faucet has literally been turned off and that this was done upon the request of Senelec itself. Beall added that Senelec not only cannot buy what's on tap, they cannot pay his company for what was already provided. However,

the situation gets worse as, even if Senelec was able to pay, the five natural gas turbines that the company runs are all in need of repair and not currently operating. One is missing an engine block that has yet to be delivered from the United States, two need essential parts that are extremely expensive to replace, and the fourth one was burnt out because Senelec ran it well above specified recommendations. The fifth gas turbine is a relic of the French era.

¶6. (SBU) Senelec's inability to generate power from locally available natural gas is a contributing factor to the country's ongoing and frequent power outages. Adding to the problem, Senelec is requesting the U.S.-owned independent power producer GTI to modify part of its operation to run on natural gas, but GTI is apparently hesitant to move forward on such a significant capital investment because Senelec frequently has difficulty in paying for GTI's output. Adding to Senelec's problems, Beall confided that the parastatal insisted that its supplier contract with Fortesa be pegged to the global price of oil.

OIL?

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¶7. (SBU) Beall said that Senegal has a mix of offshore oil reserves that are both in deep and shallow waters, but that the shallow water oil had been contaminated over the millennia thus leaving only heavy crude which is very expensive to refine. He went on to say that shallow water deposits off Senegal's coast were, at the moment, unfeasibly expensive to extract as there is both not enough water depth to put in an oil platform and the low quality of the deposits.

He explained that oil platforms are usually tied down by tension cables and that a depth of 200 meters around the platform gave it enough space to sway and move, especially during storms. Senegal's oil is below only 60 meters of water. Beall then explained that the oil in the region was a result of an ancient fault line, created by

DAKAR 00000714 002.2 OF 002

the continued separation of South America from Africa, extending from Dakar, which itself is atop an extinct volcano, all the way up to Cape Verde and that surveys carried out in the thirties by Howard Hughes confirmed the existence of extensive but very deep oil deposits.

¶8. (SBU) According to Beal, the off-shore oil deposits are not found in traditional cone structures, but rather in vertical strata.

Fortesa was one of the first energy companies to collect seismic data for Senegal and Guinea-Bissau, and was at one point under contract by the government to help attract foreign firms to bid on exploration blocks. There is significant exploration activity in Senegal at this time. Dallas-based Hunt Oil is preparing to drill an initial well in its off-shore concession within the next few months.

COMMENT

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¶9. (SBU) We cannot verify independently Beall's optimistic assessment of Senegal's hydrocarbon potential, but with the current increased exploration activity in the country he will soon be proven a visionary, or simply a profitable small energy producer. However, the GOS and Senelec's inability to solve its energy supply problems is largely a case of poor management, especially when Fortesa's potential production sits idle. Electricity cuts have increased to multiple times a day and will probably get worse as the summer wears on - at the same time that Senelec is planning to increase its rates. Meanwhile, local Shell Oil stations have been without gasoline for the last two weeks and the government continues to buy petrol on the spot market. Along with rising food prices, the energy crisis is hitting hard Senegal's frustrated businesses and population.

SMITH